AYLMER

Del Monte

File

Canadian Canners Limited

1975 Annual Report

1975 Annual Report

Financial Highlights

	1975	1974
Sales	**$106,737,000**	$ 85,348,000
Net earnings	**4,434,000**	2,808,000
Per dollar of sales	**4.2¢**	3.3¢
Per Class A and B common share	**3.16**	2.00
Return on shareholders' equity	**11.8%**	8.2%
Dividends paid per Class A share	**.56¼**	.57½
Retained earnings	**33,394,000**	29,136,000
Working capital	**25,148,000**	21,568,000
Working capital ratio	**1.8**	2.3
Shareholders' equity	**39,691,000**	35,433,000

To Our Shareholders and Employees

Sales and operating revenues for the 1975 fiscal year were $106,-737,000, which was a 25% increase over the prior year's $85,348,000. Net earnings were $4,434,000, which was $3.16 per share compared with $2,808,000, or $2.00 per share for fiscal 1974. The return per dollar of sales was 4.2¢ and the return on shareholders' equity was 11.8%, which compares with 3.3¢ and 8.2% respectively for the prior year.

In August of 1974, Del Monte Corporation, which owns substantially all of the outstanding 936,000 Class B common shares (two-thirds of the total equity capital), made an offer to purchase for $12.00 per share all of the outstanding 468,000 Class A common shares (one-third of the total equity capital), which were held by 2,400 shareholders. Del Monte Corporation has been successful in acquiring 97.5% of the outstanding Class A common shares, and now owns 98.4% of the total equity capital of the Company.

The return on shareholders' equity for the fiscal year of 11.8% achieved the Company's objective of a return in excess of 10%. This is an important achievement, but the high level of inflation has eroded the expectation of an improved working capital position from this increased return on equity. A significant increase in inventory value, due to higher costs and a higher quantity of carryover inventory, has required working capital which is considerably in excess of the working capital increase which resulted from the higher level of earnings.

A change in accounting policy with respect to inventory valuation was established for fiscal 1975. The method of valuation was changed to an average-cost method from the first-in, first-out (FIFO) method previously used. It is believed that the average-cost method provides a cost structure for cost of goods sold which more properly matches costs with revenue than does the FIFO method. This change had the effect of reducing net earnings after taxes by approximately $950,000.

Manufacturing costs during the past year increased to a greater extent than had ever previously been experienced. Prices paid to growers for fruits and vegetables were up significantly over previous years. Other major components, such as labour, energy, tin plate, packaging, sugar, and most other supplies were at record high levels. As a result of these higher costs, selling prices on all product lines were increased substantially during the year.

The market for canned foods suffered a slowdown during the early months of calendar year 1975, as wholesalers reduced inventories and consumers changed their buying habits. This left us with a higher level of inventory at the year end than had been anticipated, but our packs for the 1975 packing season have been adjusted to bring our inventory levels in line with the quantities required to meet our market expectations.

Capital expenditures of $2,858,-000 for fiscal 1975 were up considerably compared with the past few years. Expansion of warehouse facilities and acquisition of some efficiency improvement equipment were undertaken during the year, in addition to the normal equipment replacement program. Due to increased costs these programs required substantially greater funds.

The development of new products is a continuing program, requiring much in the way of research to find products which fulfil a need and which are acceptable to the consuming public. In January 1975 we launched a line of carbohydrate-reduced single serving puddings under the AYLMER Diet De Luxe label. This product has received excellent acceptance from consumers.

For the most part we experienced good crops during the 1975 packing season, and there should be sufficient inventories of most canned fruit and vegetable items to meet our requirements. Cool weather with excessive moisture created some problems in Southwestern Ontario with respect to the tomato harvest, and the packs of whole tomatoes, in particular, were adversely affected.

While the price of sugar has dropped significantly, and the raw produce prices for fruit held steady with those of 1974, the industry is experiencing higher costs this year for processing vegetables, labour, tin plate, packaging, and energy. The net result is that the total costs again are higher this year than last year, and it is expected that selling prices will advance on a number of products.

Effective January 1, 1975, the Company increased the pension of former employees who retired prior to January 1, 1974. This change was in response to a concern for retired employees with respect to the impact of the higher cost of living on their income from the Company retirement plan.

Mr. J. Y. Massey, Vice-President-Marketing, resigned from the Company at the end of December 1974, having served very capably in that capacity since 1971. Mr. G. B. Culbert was appointed Director of Marketing to succeed Mr. Massey.

Mr. Charles S. MacNaughton, Chairman of the Board of Fry Mills Spence Limited, and Mr. Fred H. McNeil, Deputy Chairman and Chief Executive Officer of the Bank of Montreal, were elected to the Board of Directors at the Annual Meeting on October 3, 1974.

Messrs. L. M. Crandall, W. I. Drynan, and L. A. Philip will not be standing for re-election to the Board of Directors at the Annual Meeting on October 2, 1975. They have each served the Company as members of the Board of Directors in excess of twenty-five years. Mr. Drynan joined the Company in 1923 and was President from 1952 to 1965. The Board wishes to express appreciation for the long and devoted contribution that each has given to the Company.

The success of our Company is largely dependent upon the efforts of our employees, and it is with gratitude that we express appreciation for a job well done.

On behalf of the Board of Directors,

Ross B. Yerby, Chairman

L. H. Johnston, President

Hamilton, Ontario,
September 8, 1975

CANADIAN CANNERS LIMITED AND SUBSIDIARY COMPANIES

Consolidated Balance Sheet

AS AT MAY 31

ASSETS

	1975	1974
Current Assets:		
Cash	**$ 59,000**	$ 65,000
Accounts receivable	**9,527,000**	8,163,000
Inventories (Notes 1(b), 2 and 3)	**45,017,000**	29,289,000
Costs allocable to future operations (Note 1(c))	**1,190,000**	890,000
	55,793,000	38,407,000
Fixed Assets (Note 1(d)):		
Land	**937,000**	728,000
Buildings	**9,656,000**	8,869,000
Machinery and other equipment	**24,148,000**	22,691,000
	34,741,000	32,288,000
Less- Accumulated depreciation	**20,392,000**	18,785,000
	14,349,000	13,503,000
Other Assets:		
Mortgages receivable	**583,000**	700,000
Goodwill (Note 1(e))	**3,243,000**	3,243,000
	3,826,000	3,943,000
	$ 73,968,000	$ 55,853,000

Approved by the Board:

L. H. Johnston, Director
Ross B. Yerby, Director

LIABILITIES AND SHAREHOLDERS' EQUITY

	1975	1974
Current Liabilities:		
Bank advances and other short-term borrowings	**$ 17,669,000**	$ 7,448,000
Accounts payable and accrued liabilities	**9,864,000**	7,238,000
Due to affiliated companies	**1,541,000**	973,000
Income and other taxes payable	**1,461,000**	1,009,000
Payments due within one year on long-term debt	**110,000**	83,000
Dividend payable on Class A common shares	**—**	88,000
	30,645,000	16,839,000
Other Liabilities:		
Long-term debt (exclusive of payments due within one year)	**224,000**	183,000
Deferred income taxes (Note 1(f))	**3,408,000**	3,398,000
	3,632,000	3,581,000
Shareholders' Equity:		
Capital stock (Note 4)		
Authorized—		
1,000,000 Class A common shares without nominal or par value		
2,000,000 Class B common shares without nominal or par value		
Issued—		
468,137 Class A common shares	**2,099,000**	2,099,000
936,274 Class B common shares	**4,198,000**	4,198,000
	6,297,000	6,297,000
Retained earnings	**33,394,000**	29,136,000
	39,691,000	35,433,000
	$ 73,968,000	$ 55,853,000

Consolidated Statement of Earnings and Retained Earnings

YEAR ENDED MAY 31

	1975	1974
Sales and operating revenues	**$106,737,000**	$ 85,348,000
Costs and expenses:		
Cost of products sold and operating expenses	**85,554,000**	69,216,000
Selling, general and administrative expenses	**12,506,000**	10,326,000
Interest on long-term debt	**13,000**	22,000
Other interest	**1,380,000**	1,026,000
	99,453,000	80,590,000
Earnings before income taxes	**7,284,000**	4,758,000
Provision for income taxes	**2,850,000**	1,950,000
Net earnings for the year	**4,434,000**	2,808,000
Retained earnings at beginning of year	**29,136,000**	26,638,000
	33,570,000	29,446,000
Dividends declared on Class A common shares	**176,000**	310,000
Retained earnings at end of year	**$ 33,394,000**	$ 29,136,000
Net earnings per share (Class A and B common combined)	**$ 3.16**	$ 2.00

Consolidated Statement of Changes in Financial Position

YEAR ENDED MAY 31

	1975	1974
Financial resources were provided by:		
Operations—		
Net earnings	$ 4,434,000	$ 2,808,000
Charges not involving a current outlay of funds—		
Depreciation (Note 5)	1,899,000	1,373,000
Deferred income taxes	10,000	178,000
	6,343,000	4,359,000
Proceeds from disposal of fixed assets	113,000	114,000
Increase in long-term debt	151,000	—
Decrease in mortgages receivable	117,000	814,000
	6,724,000	5,287,000
Financial resources were used for:		
Investment in fixed assets	2,858,000	1,625,000
Dividends declared on Class A common shares	176,000	310,000
Reduction of long-term debt	110,000	83,000
	3,144,000	2,018,000
Increase in working capital	3,580,000	3,269,000
Working capital at beginning of year	21,568,000	18,299,000
Working capital at end of year	$ 25,148,000	$ 21,568,000
Analysis of changes in working capital:		
Increase (decrease) in current assets—		
Cash	$ (6,000)	$ —
Accounts receivable	1,364,000	1,411,000
Inventories	15,728,000	216,000
Costs allocable to future operations	300,000	(550,000)
	17,386,000	1,077,000
Increase (decrease) in current liabilities—		
Bank advance and other short-term borrowings	10,221,000	(1,506,000)
Accounts payable and accrued liabilities	2,626,000	793,000
Due to affiliated companies	568,000	365,000
Income and other taxes payable	452,000	(685,000)
Payments due within one year on long-term debt	27,000	(1,200,000)
Dividend payable on Class A common shares	(88,000)	41,000
	13,806,000	(2,192,000)
Increase in working capital	$ 3,580,000	$ 3,269,000

Notes to Consolidated Financial Statements

MAY 31, 1975

1. Summary of Accounting Policies:

The significant accounting practices and policies employed in the preparation of the consolidated financial statements of Canadian Canners Limited and its subsidiaries are summarized below.

a.) Consolidation -

The consolidated financial statements include the accounts of the Company and its subsidiary companies all of which are wholly-owned:

Aylmer Foods Warehousing Limited
Boese Foods Limited
Canners Machinery Limited
Duncan Lithographing Company (Limited)
The Pyramid Canners Limited
St. Williams Preservers Limited
Wagstaffe Limited
Walmer Transport Company Limited

b.) Inventories -

Inventories are stated at the lower of cost and net realizable value, primarily using the average method to determine cost.

c.) Costs allocable to future operations -

Prepayment of insurance, rents, taxes and other expenses clearly related to future periods are considered costs allocable to future operations and are not charged against current earnings. In addition, the Company defers freight costs associated with the movement of finished cased goods from the packing locations to distribution warehouses and certain expenditures on growing crops that directly relate to future years' packing seasons.

d.) Fixed assets -

Fixed assets are stated at cost.

Depreciation is provided at rates designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings — 2½% annually on a straight-line basis

Machinery and equipment — 6% annually on a straight-line basis

Automotive equipment — 30% annually on a declining balance basis

The cost of fixed assets retired or otherwise disposed of, and accumulated depreciation thereon, are removed from the accounts and any resulting gain or loss is included in earnings for the year.

Expenditures for maintenance and repairs are charged to earnings when they are incurred, and renewals and betterments are capitalized.

e.) Goodwill -

Goodwill which arose prior to April 1, 1974 has not been amortized and will be retained as an asset indefinitely unless a reduction in its value becomes evident. Goodwill arising subsequent to this date, if any, will be amortized to income over its estimated life, not exceeding forty years.

f.) Deferred income taxes -

Deferred income taxes result principally from the difference between depreciation methods used for financial reporting purposes and depreciation methods allowable in determining taxable income.

g.) Other significant policies -

Research and development cost, development of new products, advertising and sales promotion expenses are charged against income as incurred.

2. Change in Accounting Policy:

During the year the Company changed its method of valuing merchandise and materials and supplies inventories from the first-in, first-out (FIFO) method to the average cost method. The change has the effect of reducing the net earnings of the Company for the year by approximately $950,000.

3. Inventories:

At May 31, inventories comprise:

	1975	1974
Merchandise	$28,951,000	$15,986,000
Materials and supplies	16,066,000	13,303,000
	$45,017,000	$29,289,000

4. Arrears in Dividends:

Class A Common Shares -

The holders of Class A common shares are entitled to cumulative cash dividends at the rate of 75¢ per share per annum in priority to any dividends on the Class B common shares. To June 30, 1975, the dividends in arrears which have accumulated in varying amounts annually since September 30, 1968, aggregate $995,000.

Class B Common Shares -

Subject to the prior rights of the Class A common shares, the holders of Class B common shares are entitled to cash dividends accumulating from the date of issue on October 1, 1956 at the rate of 75¢ per share per annum. To June 30, 1975, the dividends in arrears which have accumulated since October 1, 1956, aggregate $13,166,000.

After the Class A and B common shares have received payment of all accumulated dividends, Class A and B common shares share equally in any dividends in excess of 75¢ per share per annum.

5. Depreciation:

Depreciation provided during the 1975 fiscal year aggregates $1,899,000 ($1,373,000 in 1974). Included in the provision for the current year is an additional amortization of $381,000 relating to certain buildings which by agreements finalized in the 1975 fiscal year must be destroyed during the 1977 fiscal year.

6. Pension Plans:

During the year the pension plans for hourly and salaried employees were amended in order to provide for an increase in pension benefits to former employees who retired before January 1, 1974. The Company paid and charged to operations $435,000 which fully funded this increase in benefits. This amount was in excess of the annual normal pension contribution of the Company for the year.

At May 31, 1975, there was no past service pension liability relating to the Company's pension plans.

7. Long-term Leases:

At May 31, 1975, the Company had long-term leases expiring in various years through 1994 covering land, buildings and equipment. The average annual rentals payable under these agreements are estimated at $583,000 for the year ended May 31, 1976, $451,000 for 1977-81 and $155,000 for 1982-94.

8. Remuneration of Directors and Officers:

During the year ended May 31, 1975, the aggregate direct remuneration paid by the Company to twelve directors as directors was $10,800 ($7,000 in 1974) and to eight officers as officers (5 of whom were directors) was $195,000 ($175,000 in 1974).

Auditors' Report

To the Shareholders of
Canadian Canners Limited:

We have examined the consolidated balance sheet of Canadian Canners Limited and its subsidiary companies as at May 31, 1975 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at May 31, 1975 and the results of their operations and the changes in their financial position for the year then ended in accordance with generally accepted accounting principles which, except for the change, with which we concur, in accounting for inventories referred to in Note 2 to the financial statements, have been applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.,
Chartered Accountants.

Hamilton, August 5, 1975.

Ten Year Review of Financial Data

Figures in thousands except per share

	Twelve Months Ended May 31						Fifteen Months Ended May 31	Twelve Months Ended February 28 (29)		
	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966
FOR THE YEAR										
Sales	$106,737	85,348	73,197	64,078	58,582	54,663	68,028	53,677	52,251	50,568
Earnings from operations	4,434	2,808	2,232	1,263	809	692	754	1,175	1,172	1,796
Per dollar of sales	4.2¢	3.3¢	3.0¢	2.0¢	1.4¢	1.3¢	1.1¢	2.2¢	2.2¢	3.6¢
Per Class A and B common share	3.16	2.00	1.59	.90	.58	.49	.54	.84	.83	1.28
Net extraordinary gains	—	—	—	—	—	1,011	301	—	492	—
Net earnings	4,434	2,808	2,232	1,263	809	1,703	1,055	1,175	1,664	1,796
Per Class A and B common share	3.16	2.00	1.59	.90	.58	1.21	.75	.84	1.18	1.28
Return on shareholders' equity	11.8%	8.2%	7.0%	4.2%	2.7%	6.0%	3.6%	4.4%	6.5%	7.4%
Cash dividends paid	263	269	187	187	187	187	357	351	351	351
Per Class A common share	.56¼	.57½	.40	.40	.40	.40	.76¼	.75	.75	.75
Capital expenditures	2,858	1,625	1,285	1,224	1,342	1,331	1,452	915	2,039	2,097
Provision for depreciation	1,518	1,373	1,329	1,331	1,262	1,240	1,535	1,219	1,172	1,093
AT YEAR END										
Working capital	25,148	21,568	18,299	17,055	16,907	17,429	17,778	18,079	16,935	16,500
Working capital ratio	1.8	2.3	2.0	2.0	2.2	2.5	2.2	2.2	2.2	2.4
Net fixed assets	14,349	13,503	13,365	13,496	13,673	12,761	13,198	13,550	13,972	12,791
Long-term debt	224	183	266	1,549	2,634	2,694	3,144	5,319	5,805	4,625
Retained earnings	33,394	29,136	26,638	24,593	23,517	22,895	21,426	20,728	19,904	18,591
Shareholders' equity	39,691	35,433	32,935	30,890	29,814	29,192	27,723	27,025	26,201	24,888

DIRECTORS	L. M. Crandall	Pembroke, Ontario
	W. I. Drynan	Ancaster, Ontario
	Alfred W. Eames, Jr.	San Francisco, California
	L. H. Johnston, F.C.A.	Hamilton, Ontario
	Richard G. Landis	San Francisco, California
	C. S. MacNaughton	Toronto, Ontario
	Fred H. McNeil	Montreal, Quebec
	A. L. Nelson	Hamilton, Ontario
	Leonard A. Philip	Toronto, Ontario
	W. S. Sewell, Q.C.	Toronto, Ontario
	Richard H. Ward	San Francisco, California
	Ross B. Yerby	San Francisco, California
OFFICERS	Ross B. Yerby	Chairman of the Board
	L. H. Johnston	President and Chief Executive Officer
	Richard Fox	Vice-President—Corporate Development
	W. G. Lister	Vice-President—Treasurer and Controller
	A. L. Nelson	Vice-President—Production
	D. W. Munn	Secretary
	C. A. Barnes	Assistant Secretary

HEAD OFFICE 44 Hughson Street South, Hamilton, Ontario L8N 3K6

SUBSIDIARY COMPANIES

Aylmer Foods Warehousing Limited
Boese Foods Limited
Canners Machinery Limited
Duncan Lithographing Company (Limited)
The Pyramid Canners Limited
St. Williams Preservers Limited
Wagstaffe Limited
Walmer Transport Company Limited

REGISTRAR AND TRANSFER AGENTS Royal Trust Company, Toronto and Montreal

AUDITORS Price Waterhouse & Co.

ANNUAL MEETING October 2, 1975, Hamilton, Ontario